

SADC ECONOMIC IMPACT STUDY

The Services Sector in Southern Africa

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Background Study

THE SERVICES SECTOR IN SOUTHERN AFRICA

1 INTRODUCTION

Countries throughout the world have recognized the economic benefits to be derived from autonomous reforms in sectors such as financial services, telecommunications and transport, which may be viewed as the infrastructural backbones of any economy. These sectors have a significant impact on growth and efficiency across a wide range of user industries and, by implication, on overall economic performance. Availability of infrastructure services may lead to export capacity building in other sectors, including the attraction of private investment. For example, improved telecommunications generate economy wide benefits as telecommunications are a vital intermediate input and are crucial to business transactions; transport services contribute to the efficient distribution of goods within a country and within a region, and have a significant impact on a country's ability to participate in global trade; business services such as accounting are important in reducing transaction costs; education and health services are necessary in building human capital which is key to long run economic growth.

Restrictions on trade in services reduce the level of economic activity and therefore the level of real GDP. Many services are inputs into production and inefficient production of such services acts as a tax on production. Liberalization of these services sectors will foster competition and through it, encourage improvement of product and process innovation, reduce the scope for wasteful resource use and rent-seeking, and ensure users continued product availability at reasonable conditions.

In the absence of services liberalization, even successful negotiations to liberalize trade in goods in the SADC region could still result in negative effective protection for goods. What use is opening up borders for trade in goods when goods cannot be transported from one country to another or traders are not able to efficiently communicate with each other to initiate transactions? For SADC liberalization to have any meaning, it is important that services liberalization keep pace with trade liberalization.

Services liberalization, unlike goods, is not just a matter of liberalizing trade barriers, but also instituting an appropriate domestic regulatory framework. It also entails, in most cases, movement of factors of production. A country that liberalizes its services sector is likely to attract foreign direct investment and technology.

The efforts of SADC countries to develop services as a major export item and contributor to development and to penetrate the regional and world markets for services have faced considerable barriers. This is largely due to the large fixed costs of entering these sectors. Even in sectors where other developing countries are exporting, SADC countries face a number of problems. These include:

- Lack of access to financing for export or business development. The low level of income in the domestic markets make it sufficient for companies to build up a sufficient client base at home to act as a platform for export.
- Difficulty in establishing credibility with international suppliers. There is a continuing perception that SADC service suppliers (perhaps with the exception of South Africa) are not as capable as those in developed countries' home markets.
- Lack of access to reliable and inexpensive infrastructure. Poor telecommunications services impact on out-sourcing or back office export potential, while a lack of reliable energy and transport raises costs for all service sectors. Poor infrastructure could also affect the ability of a company to provide reliable service and thus exacerbate the credibility problem with clients. In a number of SADC countries Internet linkages are slow and unreliable which may mean loss of clients when the services are not delivered in time.

Realizing the potential benefits of services liberalization, the SADC countries agreed to start negotiations to liberalize trade in services. Progress has been slow mainly because the issues are new to most policy makers. The low number of proposals in GATS negotiations by SADC countries reflects the difficulty the countries face to clearly identify negotiating objectives on services – a problem that has to be addressed. On the other hand, the main concern of SADC countries in most sectors is capacity-building and technology transfer rather than access to markets. This paper is an attempt to shed light on some of the sectors and possible options for liberalizing the services sectors in the region.

The paper is organized as follows: the next section provides a brief overview of the contribution of services to SADC economies, section 3 looks at trends in services trade in the SADC region, section 4 looks at reform efforts in four sectors: telecommunications, financial, tourism and transport, section 5 examines options and key issues in services liberalization in the SADC region, while conclusions are drawn in section 6.

2 CONTRIBUTION OF SERVICES TO SADC ECONOMIES

Services such as financial, transport, telecommunications are becoming significant players in most economies in the SADC region. The sectors provide the bulk of employment and income in many countries. In areas such as financial and telecommunications, services provide vital input for the production of other goods and services. The services sector is a major contributor to GDP and trade in the SADC region. During the period 2001-2002 the sector contributed an average of almost 50% to the region's GDP. The contribution varied across countries with the relatively more developed SADC countries (South Africa, Mauritius, Botswana, Namibia, Swaziland and Zimbabwe) exceeding 50% in 2002 (Table 1). Services' contribution to GDP was also healthy in less developed SADC countries. Zambia's services sector contributed 52 %, followed by Malawi (49%) and Mozambique (45%). Tanzania, Lesotho and Angola had less than 40%. Lesotho's share in GDP declined sharply in 2002 from 42 % in 2001 to 30 percent in 2002. The decline was compensated by a significant increase in the share of the manufacturing in GDP which increased from 42% to 52 percent. The sharp increase in textile exports to the USA may explain the decline in services and increase in manufacturing.

Table 1 – Structure of SADC Economies (percentage of GDP)

	Agriculture			Industry			Services		
	1992	2001	2002	1992	2001	2002	1992	2001	2002
Angola	10.1	8.0		53.2	66.8		36.6	25.3	
Botswana	4.6	2.4	2.4	49.7	46.7	49.5	45.7	50.9	53.19
Lesotho	17.6	16.3	18.3	33.4	42.0	52.2	48.9	41.7	29.5
Malawi	38.8	36.2	36.5	31.5	16.3	14.8	29.7	47.5	48.7
Mauritius	11.4	6.6	7.0	33.1	31.3	31.0	55.6	62.1	62.0
Mozambique	32.0	26.7	26.8	16.3	27.6	27.7	51.7	45.7	45.5
Namibia	10.5	11.3	12.3	31.1	32.7	34.9	58.4	55.9	52.7
South Africa	3.8	3.2	3.2	36.4	31.2	31.5	59.8	65.6	65.3
Swaziland	11.7	16.8	13.5	41.4	44.4	34.2	46.9	38.8	52.2
Tanzania	48.0	44.8	44.4	16.2	16.0	16.3	35.8	39.2	39.3
Zambia	23.8	22.1	22.0	49.0	25.6	26.3	27.2	52.3	51.7
Zimbabwe	7.4	17.6	17.4	40.9	24.4	23.8	51.7	57.9	58.8

Source: World Bank database

On average regional services contribution to GDP in the region has grown from 46% in 1992 to 51% in 2002 (Table 2). Botswana and Mauritius recorded the fastest growth in the services sector averaging 7.8% and 6.2% growth per annum, respectively. In 2001 and 2002, Tanzania has recorder impressive annual growth rates 5.5% and 6.2%. Mozambique, South Africa and Zambia registered lower growth in 202 compared to 2001 while Lesotho and Malawi recovered from negative growth in 2001. Zimbabwe has had two consecutive years of negative growth (-5.3 in 2001 and -4.2 in 2002).

Table 2 – Structure of SADC Economies (annual growth)

	Agriculture			Industry			Services		
	1992	2001	2002	1992	2001	2002	1992	2001	2002
Angola	7.0	18.0	10.0	5.9	4.1		1.6	-4.4	
Botswana	-1.4	3.4	3.4	5.6	8.3	6.0	7.8	11.4	4.5
Lesotho	2.4	-1.6	-1.7	8.0	7.9	9.0	2.0	-0.7	3.6
Malawi	7.9	-6.3	2.7	0.5	-10.8	-7.4	2.5	-0.7	4.3
Mauritius	0.5	31.6	6.6	5.4	7.0	2.9	6.2	6.6	5.6
Mozambique	6.7	12.6	7.2	17.3	20.1	15.1	3.1	8.1	0.3
Namibia	4.4	-0.4	3.0	1.6	1.6	1.9	3.9	3.9	3.5
South Africa	2.1	1.0	2.0	1.5	2.0	3.9	3.2	3.6	2.3
Swaziland	3.4	1.6	1.6	3.3	1.6	1.6	3.4	1.6	5.6
Tanzania	3.6	5.4	5.0	5.3	6.9	9.3	3.7	5.5	6.2
Zambia	4.2	-2.4	-4.1	-2.7	9.2	11.3	3.9	4.9	3.2
Zimbabwe	3.8	-12.0	-7.0	-1.4	-9.8	-8.2	1.7	-5.3	-4.2

Source: World Bank database

The services sectors in most SADC countries are dominated by the financial sector and trading (Box 1). The construction sector is dominant in Angola, Lesotho and Mozambique. It contributes 16.5% of GDP in Angola, 16.7% in Lesotho and 11.7% in Mozambique (where it is the second largest). Financial services are dominant in South Africa contributing (19.5% of GDP), Botswana (11.4% of GDP) and Mauritius (8.7% of GDP). The transport sectors

contributes significantly in Mauritius, Mozambique and South Africa. Trading and distribution is dominant in the less developed SADC countries (Malawi and Mozambique).

Box 1: Major service sector and percentage contribution to GDP

Angola (2002) - Construction (16.5%)
 Botswana (2001) - Trade and hotels (11.4%); Financial services (11.4%)
 Lesotho (2000) - Construction (16.7%); Hotel and restaurants (9.1%)
 Malawi (2000) - Distribution (20.8%); Financial and professional services (7.9%)
 Mauritius (2001) - Transport storage and communication (11.7%); Wholesale and retail trade and other (10.6%); Financial services (8.7%); Real estate and business services (8%)
 Mozambique (2001) - Trading (17.2%); Transport and communications (16%); Construction (11.7%)
 Namibia (1997) - Real estate and business services (9%); Wholesale and retail trade and repairs (8.1%)
 South Africa (2002) - Financial services (19.5%); Wholesale and retail trade and other (13.3%); Transport storage and communication (9.6%)
 Swaziland (2001) - Wholesale and retail (5.1%); Construction (4.1%)
 Tanzania (2001) - Trade, hotels and restaurants (11.3%); Financial and business services (5.1%)

Source: Central Statistical Offices

In most SADC countries government are spending significant share of total government expenditure on health, education and transport. In some countries (Botswana, South Africa, Swaziland and Tanzania) expenditure on education makes up over 20% of total government expenditure (Table 3). Expenditure on health average about and transport average about 7.8% of total government expenditure in the region while expenditure on transport average 5.6%. These are the sectors that government may want to consider opening up to foreign investors as part of services liberalization in order to reduce the financial burden of the government. Of course, the process has to be followed by proper regulatory instruments to ensure that people are not disadvantaged through higher prices, thereby limiting access to health and education.

Table 3: Expenditure on select sectors as a percentage of total government expenditure

	Health			Education			Transport		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Angola	1.5	3.3	5.7	1.8	3.1	6.7			
Botswana	5.2	5.5	5.9	23.6	24.8	24.9	5.1	5	5.1
Lesotho	20.6	20.7		4.1	1		1.7	1.3	
Malawi	8.5	6.4	10.1	14.6	12.1	15.8	10.9	9.9	6.8
Mauritius	8.3	8.2	8.1	15.1	14.4	13.9	4.1	4	5.9
South Africa	10.1	9.7		20.6	20.2		4.6	5.1	
Swaziland	7.9	8.3	8.2	24.3	23.4	23.9	5.6	5.6	6.3
Tanzania	7	7.9	9.7	18.7	20	23.6	6	7.3	12.3

Source: Central Bank Quarterly Bulletins

3. TRENDS IN SERVICES TRADE IN SADC COUNTRIES

Table 4 – Services Account of Balance of Payments
(in millions of US dollars)

	Receipts			Payments			Net		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Angola	267	202	..	2,699	3,517	..	-2,442	-2,432	-3,315
Botswana							-156	-222	-202
Lesotho	232	281.1	303.3	-296.5	-292.2	-324.9	-64.5	-11.1	-21.6
Malawi	42	45.3	48.7	-95	-93.9	-81.8	-53	-48.6	-33.1
Mauritius	968	1083	1151	-736	-729	-874	233	354	277
Mozambique	355.6	405.1	347.9	-591.6	-648.4	-783.6	-236	-243.3	-435.7
South Africa	5,603.8	5,546.3	5,572.2	-6,303.8	-6,482.5	-6,397.1	-700	-936.2	-824.9
Swaziland	95	108	86	-205	-213	-182	-110	-105	-96
Tanzania	646.4	666.7	679.6	-873.4	-759.8	-781.2	-227	-93.1	-101.6

Source: IMF Country Reports and Central Bank Quarterly Reports

Most SADC countries remain net importers of services. The region had a US\$4.7 billion deficit in services trade. Mauritius is the only SADC countries that recorded surpluses (Table 4). Most of the payments are related to travel and transport which are easier to capture by the commercial banks. Lesotho and Botswana have surpluses in their travel related account. Capturing balance of payments figures for services is the most difficult aspect of services trade. It is believed that countries are only able to capture 15-20 percent of their services trade. The failure to capture services related data make it difficult to assess the export potential of a number of services industries.

4 SELECTED SECTOR ANALYSIS

4.1 TELECOMMUNICATION SERVICES

The role of telecommunications as essential to the facilitation of international trade, economic development, and the enrichment of citizens' lives has become widely accepted. Modern means of telecommunications, enhanced by competition, will enable all countries to participate more fully in international trade, particularly if complemented by increased liberalization of cross-border supply of many electronically deliverable services. Innovation in telecommunications will be essential to ensuring that the anticipated growth of electronic commerce can be fully realized.

Economic returns to telecommunications infrastructure investment are much greater than the returns on just the telecommunication investment itself. Where the state of the telephone system is rudimentary, communications between firms is limited. The transaction costs of ordering, gathering information, and searching for services are high. As the telephone system improves, the costs of doing business fall, and output will increase for individual firms and the economy: "If the telephony does have an impact on a nation's economy, it will be through the improvement of the capabilities of managers to communicate with each other rapidly over increased distances"¹. Thus, telecommunications infrastructure investment and the derived services provide significant benefits; their presence allows productive units to produce better. The ability to communicate at will increases the ability of firms to engage in new productive

¹ Ibid.

activities. The supply of fixed-line and mobile phones, marked by lower tariffs and overall telephone charges, reflects global trends and matches the growing needs of a multilateral environment. The availability of an efficient telecom infrastructure contributes to attracting foreign direct investment to the economy and provides a good basis for the participation of local service providers in international electronic trade in services.

Leff (1984) argues that telecommunications lower the fixed and variable costs of information acquisition². An expansion of the telecommunications network generates cost saving externalities to other markets. These externalities involve lower costs of search, increased ability to arbitrage, and increased information on the distribution of prices and services, all leading to lower transactions costs and more efficient operation of telecommunications, using markets. Leff further shows that firms can have more physically dispersed activities as telecommunications increase.

The importance of the boost in the ability of firms to engage in new product activities grows as the information intensity of the production process increases. Thus, telecommunication investments might lead to benefits in other sectors. In suggesting that a country's telecommunications infrastructure has strong effects on economic growth, it has been argued that investment in telecommunications has important spillovers and creates externalities³.

One of the most important issues facing the SADC region is the promotion of free competition in the telecommunications industry. Since the early competitive developments, from the 1968 US Federal Communications Commission Carterfone decision, holding that US consumers had the right to buy their terminal equipment from manufacturers other than AT&T to the 1982 consent decree that led to AT&T break up, entrants have relied on courts and regulators to gain access to established operators' networks. And, in the SADC region, competition will for some time continue to be promoted by legislative, judicial, and regulatory intervention. But most observers predict that competition policy will take over once competition has developed.

The developing competition in the telecommunications industry is likely to produce a substantial change in the way the industry operates. Most observers predict that decades of regulatory scrutiny will give way in the near future to a competitive market place from which detailed regulation will withdraw. Legislators, regulators, and antitrust authorities all envision a transitional period followed by the substitution of competition policy for regulatory supervision. This view was, for example, expressed in the United States in the 1996 Telecommunications Act, which facilitated entry (including by the long-distance companies) into the regional Bell companies' territories in order to enhance competition in local phone service while allowing the latter to enter the long-distance market once sufficient competition had developed in the local phone market.

² Nathaniel H. Leff. "Externalities, Information Costs, and Social Benefit-Cost Analysis for Economic Development: An Example from Telecommunications." *Economic Development and Cultural Change*, 1984, 32(2), pp. 255-76.

³ Studies by the United Nations Economic Commission for Europe (1987), *The Telecommunication Industry: Growth and Structural Change*; by the International Telecommunications Union (1980), *Information, Telecommunications and Development*; and by R.J. Saunders, J.J. Warford, and B. Wellenius (1983), for the World Bank and the Brundland Commission, *Telecommunications and Economic Development*, all attest to the need to have a modern, efficient telecommunications sector as a precursor to economic growth.

Telecommunications services are an important focus for most industrial countries in the current round of trade talks in services. All initial negotiating positions and country requests by these industrial countries are asking for full liberalization of the sector. SADC countries have already embarked on reforms in telecommunications but few have made commitments in the WTO and none has proposed going as far as full liberalization in the foreseeable future.

Domestic policy developments and regulation of the telecommunications sector by WTO member countries is guided by the General Agreement of Trade in Services: the Framework Articles of the GATS, the Annex on Telecommunications, and the Schedule of Specific Commitments (including the Reference Paper).

The crucial aspect of the Annex on Telecommunications is transparency and access to the network:

- Making information on conditions affecting access and use to the public telecommunications networks publicly available,
- Service suppliers (not just telecommunications suppliers) must be given access and use on reasonable and non-discriminatory terms and conditions for supply of a scheduled service. These include:
 - permission to attach terminal equipment to supply their service,
 - interconnecting their private circuits with the public,
 - use of operating protocols of their choice, and
 - use of the network to move information within and across borders.

4.1.1 Telecommunications Policy and Reform in SADC

Article 10.2 of the SADC Protocol on Transport, Communication and Meteorology requires SADC countries to develop harmonized regional telecommunications policy. The pace and actual sequence of reform in SADC will, however, depend on the circumstances of individual countries. The policy is implementing an orderly economic and institutional restructuring of the telecommunications sector, expanding and strengthening the institutional capacity to manage the sector, policy development and legislation.

In 1998 the Southern Africa Transport and Communications Commission's Committee of Ministers approved the Telecommunication Policy Document as a common policy guideline for adoption and implementation at the national level and the Model Telecommunication Bill as a guideline for national legislation for implementing the agreed telecommunications policies. SADC countries were urged to expeditiously adopt and implement the policies and the Model Bill in the interest of early regional integration and economic development.

SADC telecommunications strategy is outlined in the SADC Telecommunications Policy Document and the Model Telecommunications Bill. The Bill deals with principles for the design of policies aimed at providing information and communication services crucial to the overall achievement of a universal service and universal access. The Bill also deals with the

establishment of regulatory authorities, licensing of telecommunication services and the duties of public telecommunication service providers.

All the SADC countries have adopted a cautious liberalization strategy on telecommunications. Within the fixed line sector the liberalization strategy has involved:

- Separation of the incumbent from government ministries,
- Granting of an exclusivity period during which a foreign equity partner is found to inject capital and technical know-how while the incumbent prepares itself for competition, and
- Introduction of a second national operator.

All the SADC countries underestimated the demand for mobile phones. Most countries began with one or two licenses. The market has grown substantially and there is an urgent need to introduce new operators.

(a) Fixed line basic telecommunications

Lesotho, Mauritius, South Africa and Tanzania have partially privatized the national operator, Malawi and Zambia have immediate plans to privatize, while Botswana is still conducting feasibility studies. Most SADC countries have begun exclusivity periods that will see a second national operator being licensed in the near future. For example, Lesotho and Malawi have four and five years left, respectively, before the end of the exclusivity period. Malawi has, however, permitted local operator licenses that have a limited geographic coverage of one district. South Africa is at the most advanced stage. A second national operator was expected in the markets by May 2003. The decision has been postponed several times. To date no decision has yet been made.

- In terms of voice resale competition, only Tanzania has opened up while Botswana permits domestic resale only.
- Zambia and South Africa are the only countries that allow VOIP but only the rural areas.
- Most SADC countries, except Tanzania and Zambia, require Mobile and VANS operators to lease network from the incumbent for international and domestic long-distance traffic routing. Botswana allows domestic networks only in the VANS sector.

(b) Mobile telecommunications

All the SADC countries have licensed mobile operators and have some limited competition in the sector with the exception of Namibia and Lesotho. Tanzania has a fully liberalized market with no foreign ownership restrictions. Lesotho and Malawi are the only other countries that have not placed ownership restrictions. Zambia has a 60% domestic partner requirement, which is 29% higher than the standard for the region.

(c) Regulatory environment

With the exception of Namibia, all the SADC countries have a telecoms regulator autonomous in its decision making. In Botswana and Zambia, the Minister can remove members of the regulatory body, while in Zambia only the chief executive can be removed by

the minister. In all the SADC countries, except Malawi, remuneration is determined by the Minister. South Africa and Namibia are the only countries where parliamentary appropriation is the only form of funding for the regulator. The rest of the SADC countries use funds from license fees and spectrum.

4.1.2 Impact of Reform

The most striking feature of telecommunications development in Southern Africa is the rapid rise of mobile telephones. In less than five years, mobile subscribers have grown from being non-existent to outnumbering fixed line subscribers (except in Namibia). Mobile subscribers, on average, make up almost 70% of all subscribers. SADC countries made significant gains in access to telephones (mostly in Botswana, Mauritius and Malawi). However, the number of fixed lines has been declining over the past two years due to increasing number of subscribers disconnecting. Malawi and Tanzania are the only two countries that registered some increases in recent years though slower than between 1997 and 2000.

Table 5 - Fixed and Mobile Phones

	Fixed Line Subscribers		Mobile Subscribers	
	1997	2002	1997	2002
Botswana	85,592	142,600	0	278,000
Lesotho	20,400	21,100	1,262	52,000
Malawi	35,471	56,000	7,000	59,000
Mauritius	222,747	281,000	37,000	300,000
Namibia	92,821	114,000	12,500	100,000
RSA	4,645,000	4,925,000	1,600,000	11,000,000
Tanzania	105,095	150,000	20,200	427,000
Zambia	77,277	84,300	3,752	121,300

Source: SATRN Research Project

4.1.3 GATS Commitments

Only four SADC countries (Lesotho, Mauritius, South Africa and Zimbabwe) have made some GATS commitments in telecommunications (Table 4). On fixed lines, all the commitments have bound the monopoly status. South Africa precommitted to at least one new entrant (a second national operator), Mauritius precommitted to an unspecified reform of the sector.

Only Mauritius and South Africa made commitments on mobile communications, and both just committed to the limited liberalization of a duopoly status. South Africa also precommitted one additional operator in the future.

In value-added services, only Lesotho offered full liberalization. South Africa and Zimbabwe offered limited liberalization requiring value-added service providers to make use of the monopoly facilities in providing their service.

Even though on the ground most SADC countries fulfill the requirements of the Reference Paper, only South Africa has fully committed to the Paper, while Mauritius has committed to

reforms that would satisfy the Reference Paper. South Africa also committed itself to opening up resale of fixed line services.

Table 6 - Specific Commitments of SADC Countries in Telecommunications

Country	Commitment in Telecommunications	Limitations to market access	Limitations on national treatment
Angola	NC	-	-
Botswana	NC	-	-
Lesotho	V	1-N; 2-U; 3-N; 4-H	1-N; 2-U; 3-N; 4-H
Malawi	NC	-	-
Mauritius	B	1-N; 2-N; 3-R; 4-H	1-N; 2-N; 3-R; 4-H
Mozambique	NC	-	-
Namibia	NC	-	-
Swaziland	NC	-	-
South Africa	B	1-R; 2-R; 3-R; 4-H	1-N; 2-N; 3-N; 4-H
Tanzania	NC	-	-
Zambia	NC	-	-
Zimbabwe	BV	A:1-R; 2-R; 3-R; 4-H B:1-R; 2-R; 3-R; 4-H	A:1-N; 2-N; 3-N; 4-H B:1-N; 2-N; 3-N; 4-H

Notes: B=Basic telecommunications; V=Value-added telecommunications; U=Unbound; H= Unbound except as indicated in the horizontal section; N=Bound with no restrictions; R= Bound with restrictions; NC= No commitments; 1=Cross-border supply; 2=Consumption abroad; 3=Commercial presence; 4=Presence of natural persons.

Source: WTO

4.1.4 Challenges Facing Telecom Reform in SADC Countries

(a) Interconnection

In a multi-operator environment, interconnection is a crucial regulatory issue for telecommunications policy. No new entrant into the market will be able to compete effectively unless it is able to interconnect its network with the facilities of the incumbent operator. In the course of transition to competition, a pivotal issue is how best to meet the requirements of interconnection of each of the service providers. For most telephone users, the services offered by the new entrant will be of no use unless the entrant is able to link up its subscribers with the large number of subscribers of the incumbent operator.

Competition in the market can flourish only if entrants are able to interconnect their facilities with those of the incumbent and to do so at terms that allow the entrant to provide quality service at an affordable price. A “fair and reasonable” interconnection policy is a critical input in promoting competition in the telecommunication markets.

(b) Tariff Issues

Linked to interconnection and competitive efficiency is the issue of tariff and tariff policy. It is now widely recognized that enhancing efficiency and investment in telecom requires the introduction of competition, which in turn needs a regulatory mechanism to facilitate competition. An essential ingredient of transition from a protected market to competition is

alignment of prices to costs (i.e. cost oriented or cost based prices), so that prices better reflect their likely levels in a competitive environment.

4.2 FINANCIAL SERVICES

Financial services are divided into banking, insurance, asset management and the securities market. South Africa is by far the major player in the region. SADC countries are mainly importers of financial services.

4.2.1 GATS Commitments

Seven SADC countries (Angola, Lesotho, Malawi, Mauritius, Mozambique, South Africa and Zimbabwe) have made commitments in financial services (Table 7). They have all made commitments in the banking sector, but only three have made commitments in insurance. Based on the commitments, Mozambique and Malawi have the most liberal regimes. Most countries applied their horizontal commitments to Mode 4 (movement of natural persons). Access is limited to skilled labor linked to commercial presence. Apart from Lesotho and South Africa, the SADC countries have imposed few restrictions on national treatment but have restricted market entry. Countries that have made commitments have made significant restrictions on commercial presence and cross-border supply.

Table 7 - Commitments in GATS Financial Services

Countries	Commitment in Financial Services	Limitations to market access	Limitations on national treatment
Angola	B	1-R;2-R;3-R;4-R	1-N;2-N ;3-N ;4-N
Botswana	NC	-	-
Congo D R	NC	-	-
Lesotho	AB	A:1-U;2-N;3-R;4-H B:1-U;2-U;3-R;4-H	A:1-U;2-N;3-N;4-H B:1-U;2-U;3-N;4-H
Malawi	B	1-N;2-N;3-N;4-H	1-N;2-N;3-N;4-H
Mauritius	AB	A:1-R;2-R;3-N;4-H B:1-U;2-N;3-R;4-H	A:1-N;2-N;3-N;4-H B:1-N;2-N;3-N;4-H
Mozambique	B	1-N;2-N;3-R;4-H	1-N;2-N;3-N;4-N
Namibia	NC	-	-
South Africa	AB	A:1-U;2-N;3-R;4-H B:1-U;2-U;3-R;4-H	A:1-U;2-N;3-N;4-H B:1-U;2-U;3-R;4-H
Swaziland	NC	-	-
Tanzania	NC	-	-
Zambia	NC	-	-
Zimbabwe	B	1-N;2-N;3-R;4-H	1-N;2-N;3-N;4-H

Notes: A = Commitment in insurance; B = Commitment in banking; NC = no commitment; U = Unbound; H = Unbound except as indicated in the horizontal section; N = Bound with no restrictions; R = Bound with Restrictions; 1= Cross-border, 2= consumption abroad, 3= commercial presence, 4= presence of natural persons.

Source: WTO

SADC countries' GATS commitments do not provide a complete picture of the extent of trade liberalization in the region. A number of SADC countries have undergone significant reform of their financial systems but have not committed the reforms in the GATS. For

example, Botswana abolished all forms of exchange control but made no commitment in the GATS. The failure to commit the reforms in the GATS is a reflection of lack of SADC countries' participation in the GATS negotiations, and also an indication that some countries may not want to bind themselves until there are certain that reform will continue. Similarly, several instances can be noted of commitments made but not enforced as yet.

4.2.2 Export Potential

Most SADC countries are not in a position to engage in international export of financial services beyond trade facilitation. However, there is potential for greater intra-regional trade. This can be used as a platform for building the necessary capacity to export internationally. South Africa forms a large part of regional penetration followed by Zimbabwe. Mauritius established itself as a global financial center and Botswana intends to establish itself as a regional financial centre.

4.3 ROAD TRANSPORT SERVICES

Road transport services cover passenger and freight transport, rental of commercial vehicles, maintenance and repair of road transport equipment, and supporting services for road transport services. The costs of international transport services are crucial determinants of most SADC countries' competitiveness. The land locked countries of Lesotho, Swaziland, Botswana, Zimbabwe, Zambia and Malawi depend on road transport to carry most of their exports and imports. The efficiency of transport services greatly determines the ability of firms to compete in foreign markets. For most of the land locked countries higher costs of transportation feed into import and export prices. The road transport network service in SADC is still inadequate to contribute to the development needs of the region. The quality of the road network is uneven across countries.

4.3.1 Sector Performance

SADC has a designated Regional Trunk Road Network system with corresponding common design standards and specifications, and common road signs of about 888,081 kilometers. 100,083 kilometers are primary roads, 229,179 kilometers secondary roads and 488,819 kilometers tertiary roads.

There has been significant growth in road transport sector in the last 10 years, as the SADC countries have continuously shifted from rail transport to road transport to move both their freight and passengers. This has created a problem of overloading, which has increased the cost of maintaining the roads. The SADC countries are carrying out major reforms in the road services sector. The reforms, based on the SADC Investment in Transport Act, are expected to enhance the participation of the private sector in road infrastructure.

4.3.2 GATS Commitments

Only Lesotho and South Africa have made commitments in road transport (Table 8). The commitments are with respect to passenger, freight and maintenance, and repair of road transport equipment. The commitments have limitations to market access and national

treatment with respect to the presence of natural persons. The two countries have also made horizontal limitations: they provide for limited access to skilled personnel and the provision of training for local personnel.

Table 8 - GATS Commitments in Road Transport Services

Country	Limitations to market access	Limitations to market access
Lesotho	1-U; 2-U; 3- N; 4-H	1-U; 2-U; 3-N; 4-H
South Africa	1-U; 2-U; 3- N; 4-H	1-U; 2-U; 3-N; 4-H

Notes: U=Unbound; N= Bound with no restrictions; H= Unbound except as indicated in the horizontal section; 1=Cross border supply; 2=Consumption abroad; 3=Commercial presence; 4=Presence of natural persons.

Source: WTO

4.3.3 Barriers to Trade

The road transport sector is relatively liberal in all the SADC countries. However, cross-border permits, customs and immigration controls are a major constraint to the efficient functioning of the sector. For example, a trucker driving from South Africa to Malawi has to pass through Zimbabwe and Mozambique going through six different check points at the three international border points, each requiring a different permit to pass and long delays. In fact, time spent at border check points exceeds travel time.

The different regulatory policies in the road services sector stifle delays the flow of intra-regional traffic. These include administrative documentation requirements at the border, customs inspection, security checks, transit and other charges which are different from country to country.

4.4 TOURISM SERVICES

The tourism sector has traditionally been liberal. Tourism services cover hotels and restaurants, travel agencies, tour operator services, and tourist guide services. The sector is of export interest to almost all SADC countries because it is a source of foreign exchange and also a major source of employment. However, development in the tourism sector is constrained by lack of capacity and inefficiency in the supporting services sectors, such as telecommunications, finance and transport.

4.4.1 Sector Performance

The tourism sector in SADC has been expanding over the past decade. The sector has a strong “flow-through effect” with travel across all SADC countries. Between 1995 and 1998 tourist arrivals increased from 8.9 million to 11.5 million. During the same period, tourist receipts increased from US\$3.16 billion to US\$4.45 billion. It is estimated that the tourism sector in the SADC region directly employs 1.2 million workers and indirectly employing an additional 2.2 million.

An example of successful tourism development is Mauritius. Tourist arrivals have increased from 536,125 in 1997 to 660,318 in 2001 (Table 9). Gross earnings from tourism receipts

have been steadily increasing from US\$478 million in 1997 to US\$624 million in 2001. During the same period average earnings per tourist has increased from US\$892 to US\$944.

Table 9 - Mauritius Tourist Arrivals and Earnings

	1997	1998	1999	2000	2001
Arrivals	536,125	558,195	578,085	656,453	660,318
Gross earnings (millions of US dollars)	478	496	543	542	624
Average earnings per tourist (US dollars)	892	888	939	826	944

Source: Central Statistical Office

South Africa attracts the most tourists in the region. Taking up on average 52% of the tourist visitors in the SADC region and 53% of the receipts. Zimbabwe is the second most attractive destination followed by Botswana, Mauritius and Namibia. However, in terms of receipts Mauritius was is second highest earner despite lower tourist arrivals than Zimbabwe and Botswana.

4.4.2 GATS Commitments

SADC countries have made more commitments in the travel and tourism sector than in any other services sector. This may be motivated by a desire to attract both demand and foreign investment.

Table 10 - GATS Commitments in the Tourism Sector

	Commitment in Tourism	Limitation to market access	Limitation on national treatment
Angola	A	1-N; 2-N; 3-N; 4-H	1-N; 2-N; 3-N; 4-H
Botswana	AB	A:1-N; 2-R; 3-R; 4-H B:1-N; 2-N; 3-R; 4-H	A:1-N; 2-U; 3-R; 4-H B:1-R; 2-N; 3-N; 4-H
Congo DR	ABC	1-N; 2-N; 3-N; 4-H	1-N; 2-N; 3-N; 4-H
Lesotho	ABC	A :1-U; 2-N; 3-H; 4-H B :1-U; 2-N; 3-U; 4-H C :1-U; 2-N; 3-N; 4-H	A :1-U; 2-N; 3-H; 4-H B :1-U; 2-U; 3-U; 4-H C :1-U; 2-N; 3-N; 4-H
Malawi	ABC	1-N; 2-N; 3-N; 4-H	1-N; 2-N; 3-N; 4-H
Mozambique	NC	-	-
Mauritius	ADCD	1-R; 2-N; 3-R; 4-H	1-R; 2-N; 3-R; 4-H
Namibia	AB	1-N; 2-N; 3-N; 4-H	1-N; 2-N; 3-N; 4-H
South Africa	ABC	A:1-U; 2-U; 3-N; 4-H B:1-N; 2-N; 3-N; 4-H C:1-U; 2-N; 3-N; 4-H	A:1-U; 2-U; 3-N; 4-H B:1-N; 2-N; 3-N; 4-H C:1-U; 2-N; 3-N; 4-H
Swaziland	A	1-U; 2-N; 3-R; 4-H	1-N; 2-N; 3-N; 4-N
Tanzania	A	1-N; 2-N; 3-R; 4-H	1-N; 2-N; 3-U; 4-U
Zambia	ABC	1-N; 2-N; 3-N; 4-H	1-N; 2-N; 3-N; 4-H
Zimbabwe	ABC	A :1-N; 2-N; 3-N; 4-H BC :1-N; 2-N; 3-R; 4-H	A :1-N; 2-N; 3-N; 4-H BC :1-N; 2-N; 3-R; 4-H

Notes: A=Hotels & restaurants; B=Travel and tour operators; C= Tourist guide services; D= other services;
U=Unbound; H=Unbound except as indicated in the horizontal section; N=Bound with no restrictions;
R=Bound with restriction; NC=No commitment; 1=Cross border supply; 2=Consumption abroad;
3=Commercial presence; 4=Presence of natural persons
Source : WTO

Malawi, Mauritius and Zambia have made specific commitments in all sub-sectors. Mauritius made commitments in other tourism services such as tourist transport operation (car rental), yacht chartering and cruising services, and tourist duty free shops. Mozambique is the only SADC country that has not made any commitment. All SADC countries except Namibia have kept the movement of qualified persons unbound. Conversely, Namibia is the only SADC country that does not maintain any limitations to foreign suppliers of tourism services.

4.4.3 Reform Initiatives

The SADC countries have cooperated under the World Tourist Organization. The region has also established a SADC Tourism Sector Coordinating Unit to reform the tourism sector. In 1998, SADC countries signed a Protocol for the Development of Tourism. However, only Botswana, Mauritius and Zimbabwe have ratified the Protocol. The Protocol aims to facilitate intra-regional travel for the development of tourism by removing travel and visa restrictions and harmonizing immigration procedures in order to facilitate the movement of both regional and international tourists in the SADC region.

As part of reforming the sector, the SADC member states formed RETOSA which has representation from the public and private sectors. RETOSA is the marketing and promotional arm of the SADC tourism sector. It aims at creating a concrete destination identity for the regional market. The reform initiatives are aimed at strengthening the competitiveness of the sector through the harmonization of tourism legislation, strengthening institutional capacity, upgrading and harmonizing standards, and increasing competition.

On the export side, the tourism sector is constrained by the absence of SADC tourist suppliers in the home country of most tourists and lack of access to the Global Distribution System and the Computer Reservation System.

5 SERVICES LIBERALIZATION IN SADC

There are substantial gains to be made for SADC countries, both from liberalization within the region and from multilateral liberalization, especially in key infrastructure services like telecommunications, transport and financial services. SADC countries could stand to make significant gains from more open services trade. Successful liberalization will require introducing competition (and not just changing ownership) and effective regulation to correct market failure and in some sectors ensure social goals such as universal access. Appropriately designed domestic regulations can help reform at national level and provide meaningful market access at both regional and international levels.

Services have a number of distinctive features that need to be taken into account when discussing liberalization. The need for proximity between the consumer and the producer

implies that one of them must move to make an international transaction possible. Trade in services include four modes of supply:

- Mode 1: Cross-border supply which arises when a service crosses a national border, for example, the purchase of software by a consumer from a supplier located abroad.
- Mode 2: Consumption abroad which occurs when the consumer travels to the territory of service supplier, for example to purchase health services (in case of a patient) or education (in case of a student).
- Mode 3: Commercial presence which involves foreign direct investment, for example, when a bank establishes a branch in the territory of a country.
- Mode 4: Movement of individuals which occurs when independent service providers or employees of a foreign firm temporary move to another country.

In addition to the four modes of supply, the GATS identified six elements of market access limitations to trade in services:

- Limitations on the number of service suppliers;
- Limitations on the value of services transactions or assets;
- Limitations on the total number of service operations or the quantity of service output;
- Limitations on the persons that may be employed in a particular sector or a particular supplier;
- Measures that restrict or require supply of the service through specific types of legal entity or joint venture; and
- Percentage limitations on the participation of foreign capital, or limitations on the total value of foreign investment.

This section makes some suggestions for services liberalization at the SADC regional level.

5.1 WTO LIBERALIZATION UNDER THE GATS

The objectives of services liberalization at SADC level and the GATS are to promote transparency, stability and liberalization for services trade. The GATS contains disciplines similar to those contained in the GATT 1994. However, only two of the basic GATS disciplines are of general application: the most-favored nation provision and the transparency provision. The provisions with respect to national treatment and market access are of specific application and apply only to service sectors included in national schedules of commitments. The GATS is yet to finish rules on subsidies, emergency safeguard measures and government procurement disciplines and domestic regulation.

The GATS is, however, a non-transparent agreement because of the scheduling it has adopted to set out bound commitments on services trade. The “positive list” approach adopted by the GATS allows voluntary scheduling of commitments and obligation set out in GATS Article III to notify changes in laws, regulations and administrative procedures for all measures affecting services trade, applies only to committed sectors.

The GATS allows commitments in national schedules that are bound at a more restrictive level than the “status quo” (or less than actual regulatory practice). This means that service providers are not necessarily provided with accurate information on market access

possibilities. Given the inherent nature of services trade and the constraints and structural weaknesses inherent in the GATS, regional agreements can be both welfare-enhancing for their participants and worthwhile options for negotiating efforts.

Liberalization of services trade is achieved through the removal or lowering of regulatory barriers to services trade and through the diminishing of discrimination vis-à-vis foreign as compared with domestic service providers. Unlike trade in goods where the barriers to market access are mostly through tariffs and quotas, in services trade the barriers are not explicit. They are through laws and regulations. This makes transparency a key element for the effective liberalization of services trade. The current GATS scheduling structure makes it difficult to obtain information on any service sector not included in a national schedule. Even for included sectors, there is no obligatory transparency required because the sectors can be “unbound” against conditions of either “market access” or “national treatment” with respect to any of the four modes of service supply. The exception has been in the area of telecommunications with the adoption of the Fourth Protocol. The negotiations on basic telecommunications were fortunate in their timing, as countries had already moved to carry out unilateral deregulation and investment liberalization at home.

Other than the telecom area, both the limited number of sectors included in national schedules as well as the limited number of overall commitments, particularly by developing countries, is testimony of lack of progress in the GATS. The adoption of the request and offer approach may prove a factor in limiting the liberalizing outcome of the negotiations.

Matrices drawn up to illustrate the extent of GATS members’ commitments generally indicate that developed countries have accepted commitment in more sectors than developing countries. However, such comparisons conceal the facts that:

- Many of the commitments offered by developed countries simply bind the status quo treatment without providing meaningful market access,
- Significant commitments have not been made in the mode of greatest importance to developing countries, i.e. movement of natural persons,
- In most cases developing countries do not have the capacity to benefit from the access provided in developed country markets, and
- Anti-competitive situations, market dominance, restrictive business practices or subsidies prevent developing country firms from effectively competing in foreign markets.

There are likely to be significant gains to developing countries if restrictions on services exports are eliminated. With greater liberalization on movement of natural persons, many SADC countries could “export” at least the significant labor component of services such as construction, distribution and transport.

Another weakness of the GATS is that it is supposed to provide a stable framework for the conduct of services trade. Legally binding measures, guaranteeing not to go back on commitments, are just as important as lowering barriers to services trade. However, this is not present in the GATS.

Despite its shortcomings, the GATS offers a valuable mechanism to overcome the credibility difficulty that most developing countries face with their reform efforts. Governments can make binding commitments to provide market access and national treatment at a future date. Failure to honor these commitments would create an obligation to compensate those who are deprived of benefits, making the commitment more credible than a mere announcement of liberalization intent in the national context. A precommitment to liberalize can also instill a sense of urgency in domestic reform, and in efforts to develop the necessary regulatory and supervision mechanisms.

Several governments have taken advantage of the GATS to strike a balance between their reluctance to unleash competition on protected national suppliers and their desire not to be held hostage in perpetuity either to the weakness of the domestic industry or to pressure from vested interest. The most striking examples are in basic telecommunications where a number of countries (including SADC countries) have bound themselves to introduce competition at precise future dates. Of course, the use of the GATS as a mechanism for lending credibility to liberalize programs has not been as successful in other sectors.

The GATS architecture permits developing countries to offer trade liberalization commitment in those services sectors where access to foreign services and foreign investment is considered to be most capable of having a positive impact on the economy. For example, most developing countries have made commitments with respect to commercial presence in the tourism sector so as to encourage foreign investment in tourist facilities. The GATS also permits the use of performance requirements to ensure that the beneficial effects of such foreign presence are maximized. Participation in the GATS negotiations should be seen as an extension of the national services strategy and meet other sustainable development goals, with requests targeted at those foreign measures and practices which impede access by developing country suppliers to world markets or reduce the benefits to their firms of participation in trade in services.

The challenge for SADC countries remains on how to establish their specific needs in the framework of GATS Article IV leading to transfer of technology and the capacity building. However, the experience shows that in some areas, like construction services, developing country suppliers maximize their capacity building when engaging into the joint ventures and partnerships with the foreign firms in the delivery of service. This measure - requirement to establish as a joint venture - would be treated as the limitation on trade liberalization.

Implementation of the Article IV provisions at the horizontal level appears to be difficult. Developing countries seem to be better positioned to achieve progress in negotiations on increasing their participation in trade in services when focusing on how to implement GATS Article IV in the sectors of their interest and in articulating the associated sector- specific issues and measures of their immediate concern.

Areas of interest to SADC countries include movement of natural persons, construction, tourism and energy services.

Movement of Persons: A number of SADC countries are interested in a further liberalization of movement of persons (mode 4) on a sectoral basis and addressing issues that are impeding

market access including issuance of visas, administrative procedures and lack of transparency and economic needs tests. A new approach is necessary to achieve any progress in the negotiations on mode 4. This approach should be handled at a level of detail so that the negotiations would not be overtaken by the non-trade concerns. Some of the issues include setting minimum sufficient international rules that would limit negative trade impact on the movement of natural persons and would be compatible with the overall development objectives of developing countries, and sectors or categories of professions where liberalization of the movement of persons is critical for the export of services from developing countries.

Tourism: The tourism sector constitutes one of the most important sources of foreign exchange. For many SADC countries, in particular the least developed SADC countries (Malawi, Mozambique, Tanzania and Zambia), tourism is probably the only economic sector which provides concrete and quantified growing trading opportunities. It is one of the fundamental pillars of their economic development.

Most countries in the region have already liberalized the tourism sector. However, to ensure that trade is taking place in a fair and competitive environment, other multilateral measures may be necessary for disciplining anti-competitive practices in the tourist originating countries. The competition issue and the treatment of anti-competitive behavior are at the core of the problems of efficiency, viability and sustainability of tourism in SADC countries. Ability to deal with those aspects and to counter their effects is of decisive importance. Moreover, the inadequacy or absence of a domestic legal framework on competition in SADC countries, and the lack of multilateral disciplines and mechanisms within the GATS framework affect the ability of SADC countries to deal with or prevent anti-competitive practices in their tourism sectors.

The predatory practices and anti-competitive behavior in international tourism produce two main effects on the economic sustainability of the tourism of SADC countries: unbalanced trade benefits, and the deepening of the leakage effect. Their combined impact minimize the positive impacts of spillover and multiplier effects inherent to tourism, and undermine the financial capacity of enterprises and the ability of countries to earmark necessary resources to maintain and upgrade basic infrastructure and quality standards in order to satisfy in an adequate way competitive conditions and international demand.

SADC countries may need to ensure the following:

- adequate coverage and consistency commitments in all tourism activities;
- prevention of predatory behavior with anti-competitive practices by dominant integrated suppliers in the originating markets;
- effective access to and use of distribution systems and information networks on a non-discriminatory basis; and
- the implementation of an adequate framework for sustainable development in tourism.

Energy Services: The countries of the region can expect to find themselves under pressure to liberalize in many sub-sectors of energy services, and it may be necessary to gain a better understanding of the implications and opportunities of the liberalization of energy markets for energy producing countries. Energy is central to achieving the interrelated economic, social and environmental aims of sustainable human development, and energy services play a crucial role in providing efficient access to energy in support of development. SADC countries are thus faced with the challenge of achieving more reliable and efficient access to energy through the enhanced availability of energy services. To ensure that the link between market access and development is clearly established, access to the region's energy markets could be made conditional on:

- transfer of technology and managerial know-how;
- the acceptance by foreign suppliers of public services obligations; and
- the setting up of alliances between foreign and domestic firms, including SMEs.

These principles could be included as negotiated additional commitments in the sector. On the other hand, developing countries should create a favorable environment for foreign and domestic suppliers by setting up a transparent regulatory framework which ensures fair competitive conditions for all operators, especially access to the network.

Construction: SADC countries view construction services sector not only as a key infrastructure service but also as a tool for upgrading welfare. Development of this sector directly contributes to the attainment of the development goals. The strengthening of domestic and export supply capacity relies upon the ability of SADC countries to upgrade continuously their technological capacity.

Construction is one sector that SADC countries can request for sector liberalization of movement of natural persons in exchange for market access. The movement of foreign nationals in developed countries is often subject to visa and residency requirements, and economic needs tests, even for project related work of short duration, and frequently with little transparency as regards the criteria applied in the issuance of visas and work permits, which often appear to penalize nationals of developing countries.

SADC countries may seek to attach requirements of associations and joint ventures, so as to include local companies in the design and implementation of construction projects. This has proved to be the most effective way of obtaining access to transfer of technology.

To benefit from the GATS negotiations, SADC countries need to ensure that multilateral rules and commitments on trade in services contribute to economically rational policy-making at national and international levels. Their inability to participate in past negotiations has not been conducive to achieving this goal. SADC countries need to push aggressively for the liberalization of both domestic and foreign services markets and to promote the development of improved rules. At the same time, developed countries need to open the sectors of export interest to SADC countries so that there is a virtuous cycle of mutually beneficial liberalization.

5.2 SADC REGIONAL SERVICES LIBERALIZATION

Although some developing countries have been able to implement successful service export strategies aimed at the world market, for most SADC countries the export markets for most services are neighboring countries. Thus, regional (SADC) and sub-regional (SACU) integration would seem to provide excellent opportunities for expanding trade in services and for firms in the region to strengthen their capacities to export to the world market. However, SADC countries (like most developing countries) have been slow in incorporating services into regional and sub-regional integration agreements. In fact, the GATS commitments were the first exchange of obligations among the SADC countries in such schemes.

Negotiations on the liberalization of trade in services are taking place in different forums and at different levels (bilateral, regional and multilateral). All negotiations are however interrelated, since commitments adopted at one level influence developments in others, making the whole negotiating process rather complex. The higher the level of commitments adopted in the multilateral framework and the wider their scope, the smaller is the space left for preferential liberalization to take place in the framework of bilateral or regional agreements. Members of sub-regional integration agreements therefore need to determine a common position as to the sectors in which access to foreign services could have the greatest positive impact on their respective economies and development goals.

The first priority in a sub-regional grouping would be to strengthen and harmonize the regulatory structures governing a priority list of services. Access to the regional market and the existence of a regional or sub-regional institutional structure can provide the framework within which investment can be attached to as an export-oriented sector. New export capacities can be enhanced by preferential access to neighboring developing countries, and that access can in turn be enhanced by cultural and linguistic factors.

Support for the natural tendency to export to countries in the same region may be provided, for instance, by removing requirements and limitations on the movement of natural persons; establishing common curricula among the members of the regional grouping, which would greatly facilitate the mutual recognition of diplomas and other professional qualifications; easing the requirements for obtaining the necessary permits and authorizations for foreign firms to conduct various aspects of their operations in the host country, and opening up public procurement to firms from other countries of the region.

All regional services agreements offering preferential liberalization concluded among WTO members are supposed to be compatible with Article V of the GATS⁴ and ensure a greater depth of liberalization among members than that of the GATS (known as GATS plus). Members of preferential agreements that are in a customs union will strive for a deeper level of integration. All preferential agreements including bilateral agreements must comply with the same requirements and be judged in terms of the same criteria.

⁴ Article V stipulates that RTAs should: (a) have substantial sectoral coverage; and (b) provide for the “absence or elimination of substantially all discrimination” through elimination of existing discriminatory measures and/or through the prohibition of new or more discriminatory measures either at the entry into force of the agreement or on the basis of a reasonable time-frame. The “substantial sectoral coverage” refers to the number of sectors, volume of trade affected and modes of supply. In order to meet this condition, agreements should not provide for the *a priori* exclusion of any mode of supply.

Many regional trade agreements offer greater stability to service providers through their provisions than does the GATS. Several preferential agreements in the western hemisphere include an explicit “status quo” provision for the treatment of existing service measures which precludes the introduction of any new restrictions on services trade among members, while other agreements provide for this implicitly. Regional trade agreements can target deeper integration among members than can an agreement at the multilateral WTO level which currently encompasses more than 140 members.

SADC services trade liberalization will be more complicated than liberalization of goods. Supply of services mostly requires proximity between producers and consumers. This requires movement of either service producers or service consumers, or movement of capital to invest in service activities. Further, barriers to services trade are mostly embedded in national laws and regulations. This is a more challenging task than simply reducing tariffs. It requires careful design of an appropriate way, timing and forum in which to carry out the liberalization.

5.2.1 Approaches to Services Liberalization

There are two main approaches to liberalization of trade in services: the “positive list” approach and the “negative list” approach. Under a positive list approach, countries undertake national treatment and market access commitments specifying the type of access or treatment offered to services or service suppliers in scheduled sectors.

The “negative list” approach is based upon negative listing, whereby all sectors and measures are to be liberalized unless otherwise specified in annexes containing reservations, or non-conforming measures. Non-conforming measures in the annexes are then usually liberalized through consultations or periodic negotiations. The negative list approach provides a great deal of information in a transparent form on the existing barriers to trade in services. Negative listing obliges members to provide transparency through the listing technique for the non-conforming measures or reservations which must be set out comprehensively and all services sectors must be included. The annexes to the agreements provide a complete and accurate picture of the existing restrictions to market access or national treatment in a given market. The sectoral coverage of commitments as well as the type and comprehensiveness of information provided on the commitments may vary significantly between the members. This results in less transparency for service providers and less legal and economic certainty regarding market access.

5.2.2 Strategies for SADC Services Liberalization

In most SADC countries, the first problem to be addressed in drawing up services strategies is to correct regulatory and fiscal disincentives that penalize the export of services in relation to goods. As services had traditionally not been viewed as an export sector, mechanisms used to promote exports of goods are not available to service producers. Service producers suffer from high levels of tariff protection on imports of the capital goods and other inputs required to produce the service efficiently.

The liberalization of trade in services notably commercial presence, can make a major contribution to the achievement of developmental and social goals. However, certain prerequisites must usually be met for liberalization to have a positive impact. For example, it has been clearly shown that the liberalization of the financial services sector should be preceded by the implementation of sound prudential legislation. In the health sector, the presence of foreign suppliers can strengthen or weaken the health care system depending on the structure of the domestic sector. In the environmental services sector, foreign suppliers can make positive contributions to the protection of the environment if technically adequate, enforceable legislation is in place and if funds are available to the country concerned to pay for such imported services.

Ensuring the positive impact of liberalization requires that liberalization commitments be devised in clear recognition of the specificities of the national services sectors concerned and of the relationship between sectors. The expected benefits of trade liberalization in the services sectors may be frustrated by the inadequacy of domestic policies and by the lack of a well-articulated domestic regulatory framework. An appropriate legal framework is required to prevent abuses in deregulated markets and protect domestic consumers, while ensuring transfer of technology and the development of domestic competitive supply capacities.

Defining the most appropriate forum to liberalize services is not an easy task. Deciding what the optimal level to carry out services liberalization within a regional grouping with different levels of economic development is a critical issue. A better solution is to group the services sectors according to structure and mode of delivery (Table 9). For some service sectors, the regional level may well be the most appropriate and realistic level of liberalization and the one that makes sense in terms of negotiating effort.

Table 11 - Strategies by Service Sector

TYPE OF SERVICE	STRATEGY
Financial; Telecom; Energy; Transport	<p>These services require large amounts of capital to operate and large economies of scale to produce.</p> <p>The optimum level for liberalization of such services is therefore the largest market possible, in order to attract and accommodate investment from the most efficient service operators.</p> <p>Liberalization restricted at SADC level would limit the ability of a country to draw upon the most efficient suppliers and thus maintain higher-cost services.</p> <p>The GATS is the most economical and beneficial forum for liberalization.</p>
Tourism	<p>The sector is already open in most of the SADC member countries. It would not make sense to limit it to the region.</p> <p>The GATS is the most economical and beneficial forum for liberalization</p>
Distribution; Professional services; Business services;	<p>These sectors are subject to strict regulated national standards. Regional agreements have a useful role to play because it is</p>

	<p>easier to harmonize standards at regional level.</p> <p>SADC may be a useful forum for initial negotiations.</p>
Construction/engineering services	<p>Construction is subject to procurement regulations. Even though a regional agreement could play an important role for smaller projects, larger products should be liberalized globally.</p> <p>Liberalization can be done at two levels: at regional level for smaller projects and at GATS level for projects exceeding a certain amount.</p>
Environmental services	<p>As with construction, most of the SADC countries do not have the capacity to provide the necessary technology.</p> <p>The GATS is the most economical and beneficial forum for liberalization.</p>
Educational services; Health services	<p>Even though it may be easier to reach agreements on standards regarding educational and health services at regional level, the reality of the region is that the majority of the countries are net importers of advanced educational and health services. Limiting the provision of services to the region will deprive the consumers advanced methods of teaching and health care.</p> <p>A careful mix between the GATS and regional preferences would be beneficial to the consumers. For example, specialized health care and educational services could be liberalized using the GATS forum.</p>
Recreational services; Cultural services	<p>Recreational services and cultural services represent differing levels of sensitivity for consumers in different countries, and therefore the question of how much and where to liberalize these sectors will be decided by the national interests of participants to any negotiation.</p> <p>Since the SADC countries have more to offer globally, the GATS is best forum to liberalize.</p>

6 CONCLUSION

Entry restrictions are becoming harder to justify in the face of growing evidence of the benefits of competition. Globalization, privatization and improved information technologies are expanding the global markets for services and providing increased business opportunities for suppliers from developing countries. These opportunities will only be realized if:

- governments give the highest priority to services sectors with export potential, improve the services infrastructure and undertake human and institutional capacity-building and regulatory reform,
- private sector firms have sufficient capacity to produce the critical mass of services necessary for exports,
- exports of the services are cost-competitive,

- the services produced are of an acceptable international quality level,
- the services firms are given sufficient support and incentives to develop market linkages, and
- firms have access to target markets.

SADC countries have much to gain from strengthening multilateral disciplines on domestic regulations. The development of such disciplines can play a significant role in promoting and consolidating domestic regulatory reform. Telecommunications experience is one example. Such disciplines can also equip SADC exporters to address regulatory barriers to their exports in foreign markets. However, there are limits to what can be achieved at the multilateral level, and some of the key regulatory challenges must still be addressed at the national level. Multilateral trade rules are designed to ensure market access, and not directed at promoting social welfare.

While there are some merits to the argument that price determination should ideally be left to competitive markets, and regulatory price setting is fraught with difficulties, regulatory authorities in SADC countries where competition is yet to develop need to equip themselves, legally and technically, with the ability to regulate prices. This is particularly desirable in SADC where countries have locked themselves into exclusive supply contracts with one or two telecom providers for the next 3-5 years.

Attaining social objectives in an economically efficient manner is a major challenge for national policy makers. The manner in which they pursue this objective can have profound impacts on trade in a variety of areas, ranging from financial, transport, telecommunications, health and education services.

While nothing in the GATS prevents a country from pursuing any form of pro-competitive regulation provided it is not discriminatory, the capacity of most SADC countries to exercise such regulation is limited. It is incumbent on the countries to create adequate mechanisms for such regulation. For example, in professional services, low standards and disparities in domestic training and examination can become a major impediment to obtaining foreign recognition. Inadequacies in domestic regulation can legitimize external barriers to trade. The need for effective regulation of financial services requires no elaboration.

Making sustainable and effective integration of the SADC countries into the processes of liberalization of the world economy rests upon creating a supportive domestic and international policy and regulatory environments. Fair trade will not be achieved in the imperfect markets, where information will not be equally available to all, where dominant players will impose their own terms of doing business and where the rest will have no tools to address the anti-competitive practices. Among all these concerns asymmetries in the level of development and the weak position of the SADC countries in the global services trade are the most essential problems to be addressed. As a minimum, the assessment should demonstrate conditions under which SADC countries could expect to achieve a balanced growth and the specific obligations, which they will be able to sustain.

Regulations that would secure a competitive environment in each SADC country are vital preconditions for liberalization of market access to proceed successfully. The availability of

emergency safeguard mechanisms as a temporary fall-back option could also support the efforts of SADC countries to further open their air transport services market for competition. In the case of the tourism sector, anti-competitive conduct such as exclusive dealing clauses incorporated into contracts between tour operators and hotels in developing countries, or clauses on import and supply requirements in franchising contracts appears to have the potential for a major impact on the ability of SADC countries to benefit from trade in tourism.

Appropriate domestic policies in the field of tourism can reduce the risk of low retention within the country of the revenue generated by total sales to foreign tourists. Leakages, which partly negate the economic and development benefits accrued from tourism in developing countries, can be due to factors such as the import of materials and equipment for construction and consumable goods such as food and drinks to cater for the needs of international tourists, as well as the repatriation of income and profits earned by foreigners and often from the full purchase of tourism services from outside the host country.

Successful strategies in SADC service exports require a multisectoral approach. For example, exports of health services through movement of patients can be hindered by the non-transportability of insurance services, and health service exports through the movement of persons can be impeded by problems relating to the recognition of professional qualifications. Service development strategies can require choices between competing objectives; there may be contradictions, for example, between air transport policies and policies aimed at maximizing tourist arrivals.

Although the most important services policy reforms need to be taken at the domestic level, there is substantial scope for constructive use of the multilateral trading system both in realizing credible domestic liberalization and securing market access abroad. Domestic environment is predominantly open in SADC countries but suppliers of services are not benefiting from the same effective opportunities in the developed country markets. Further liberalization along the traditional lines is not likely to bring the net benefits to developing countries and contribute to their balanced growth, unless issues such as movement of natural persons, technology transfer and capacity building are properly addressed in the negotiations.